In the

Supreme Court of the United States.

OCTOBER TERM, 1941.

No. 75.

B. B. CHEMICAL CO.,
Petitioner,

v.

ELMER A. ELLIS
AND
MAGIC TAPE COMPANY,
Respondents.

REPLY BRIEF FOR PETITIONER.

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"IMPROPER USE".

The "Brief for the United States as Amicus Curiae" states the doctrine of the *Carbice* and *Leitch* cases as being that "improper use" of a patent bars a patentee from relief for infringement, whether the defendant is a mere vendor of unpatented materials or a true infringer, and says that this doctrine applies to the present case because, as it asserts, this plaintiff has been guilty of an "improper use" of its patent. Thus, the brief says (p. 5) that

> "The doctrine of 'improper use' bars petitioner from relief for infringement of its patent".

The phrase "improper use" occurs nineteen times in the 14-page brief.

We respectfully submit that *there has been nothing whatsoever which can by any stretch of the imagination be regarded as an "improper use" of the Ellis patent by this plaintiff.*

(a) Certainly up to the time when it filed its complaint in this case plaintiff had done nothing which could be regarded as improper.

The final reinforcement of the insoles in accordance with the patented process must be done in the shoe factories (Magruder, J., Tr. p. 274 and our main brief, p. 7), and it is therefore necessary, if the process is to be put into use, that the materials, machines and service necessary to enable the factories to operate the process be supplied to them.

Plaintiff has adjusted its practice to this trade condition, and it obviously has done nothing reprehensible in doing so.

It has conducted at its own factory such steps as, in the nature of the case, can be conducted there, namely, the precoating, drying, slitting and packaging of the duck (which duck is supplied by the shoe manufacturer at his option), and the provision of suitable adhesives and machines for use in the final reinforcing step. These materials and machines it has supplied to shoe manufacturers, in conjunction with instructions to operators, servicing of machines and advice and assistance in the reinforcing operation.

And this is all that plaintiff has done.

It is, we submit, utterly unwarrantable to call this an "improper use" by the plaintiff of its patent.

To the contrary, what plaintiff has done has been wholly reasonable and wholly proper; and it has been in the public interest, for it was in the public interest that shoe manufacturers should have the benefit of this admittedly valuable process.

Plaintiff has made no effort whatever to obtain any monopoly in unpatented materials. As the Court of Appeals

said and as was found by the District Court (Tr. pp. 264; 25):

> "Neither by notice nor agreement in any form with its customers did the plaintiff require them to use only the plaintiff's material."

Plaintiff never made any threats of infringement suit, nor did it even give warnings against infringement to shoe manufacturers.

Plaintiff has granted no licenses upon a royalty basis to shoe manufacturers, but no such license had ever been sought. Plaintiff never refused such a license.

(b) It is, thus, perfectly clear that at the time the complaint herein was filed plaintiff was guiltless of any conduct which by any standard can be called an "improper use" of its patent.

What, then, has plaintiff done that is "improper"?

The answer must, evidently, be that plaintiff has done nothing improper, unless it was an "improper use" of the patent *to file and prosecute suit for patent infringement against the man who sold the patent to the plaintiff, and who, as the amicus curiae brief itself says [illegible], is urging manufacturers to adopt his infringing process and instructing manufacturers in that process, and who is further cooperating in their infringement by furnishing advice and assistance, machinery and service.*

But it is inconceivable that the filing and prosecution of such a suit in such circumstances is an improper use, or an attempt at improper use, of the patent.

Relief was denied in the *Leitch* and *Carbice* cases because the plaintiffs in those cases, ignoring the limitations of their patents, were attempting to make an improper use of their patents by suing as infringers defendants who did nothing more than compete with them in selling unpatented materials.

The *amicus curiae* brief (p. 13) characterizes our argument as

> "a contention that some 'improper uses' of patents are reasonable."

Of course, what we assert is that *a reasonable use of a patent is not an "improper use"*.

THE INCORRECT ASSERTION THAT ALL PROFITS WHICH PETITIONER REALIZES ARE DERIVED FROM THE SALE OF UNPATENTED ARTICLES.

The amicus curiae brief asserts (p. 4) that

> "All profits which petitioner realizes are derived from the sale to manufacturers of the unpatented articles to be used in the patent process."

A similar statement is made at p. 8 of this brief, where it is said

> "And it is only from the sale of such unpatented materials—and not from exploitation of its patented process—that petitioner derives its compensation."

A similar assertion is made in the brief for respondents at page 2.

The fact is that plaintiff's profits are derived, not from any mere sale of unpatented material, but from the compensation which it receives as a single charge for all the services, materials, use of machines, instruction to operators and advice which the plaintiff supplies, including the use of its patent (Stip. Tr. p. 43; Opinion Tr. pp. 263-264). Plaintiff's profits are derived from all these things taken together. It happens that these values are conveniently measured by the quantity of duck which the plaintiff precoats for the shoe manufacturer, and this quantity is the basis of the charge, whether the shoe manufacturer supplies his

own duck (as he does if he wishes), or whether the plaintiff supplies it. Indeed, if there is in the entire transaction any thing which can properly be called a sale of material, it is certain that neither plaintiff's entire profits, nor any segregable portion thereof, can be attributed to such sale.

THE PEPPERELL AND H-B PRODUCTS COMPANY LICENSES.

The brief for respondents, at page 3, refers to licenses granted by the plaintiff to Pepperell Manufacturing Company and H-B Products Company (whose course of business is identical with that of the plaintiff), authorizing these companies, in consideration of royalty payments, to conduct their similar operations (Ex. 2, Tr. p. 245, offered p. 49; Ex. 3, Tr. p. 248, offered p. 50).

Far from supporting the argument that plaintiff has attempted to monopolize the sale of unpatented materials, the fact that these licenses were granted shows that the plaintiff was making no such attempt; for it shows that plaintiff was willing to allow others, in competition with it, to supply the shoe trade with materials, machines and services for carrying out the patented process, on payment of royalty.

This defendant Ellis, who sold the patent to the plaintiff for $8,000, is doing exactly the same thing as these licensees, Pepperell and H-B Products, except that he is doing it without license and without paying royalty.

Respondents' brief says (p. 2) that

> "many large shoe manufacturers prefer the Respondent Magic Tape Company as their single source"

of materials, service, and machines. Naturally so, since the Magic Tape Company (that is to say, Ellis) paying no royalty, and not having paid $8,000 for the patent or been put to the other large expenses necessary to introduce the

process to the trade, but having, instead, *received* $8,000 for the patent, is able to charge a lower rate than plaintiff or its licensees for services, supervision, machines and materials.

Respectfully submitted,

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